

March 30, 2012

F-35 SAR INFORMATION PAPER

F-35 SAR

- The December 2011 SAR reflects the new approved APB, i.e., restructured into two subprograms (aircraft and engine) in accordance with section 802 of the FY 2011 NDAA, which directed a breakout of the F-35 APB.
- Overall, from SAR 2010 to SAR 2011 F-35 program costs increased by \$124.2B (+9.0%) from \$1,384.7B to \$1,508.9B.
- It should be noted that last year's December 2010 SAR was a single total program SAR "F-35 Program," for which the acquisition cost estimate at that time was \$379,392.8 million and included both the aircraft and the engine. The overall F-35 program acquisition estimate increased from \$379,392.8 million in the December 2010 SAR to \$395,711.8 million in the December 2011 SAR. In the December 2011 SAR, the program has been divided into two subprograms, the "F-35 Aircraft" and the "F-35 Engine." Below is a description of the details of the changes for these two subprograms.
- From SAR 2010 to SAR 2011 F-35 program acquisition costs increased by \$16.3B (+4.3%) from \$379.4B to \$395.7B. Details of the cost changes by subprogram are as follows:

Aircraft: (+\$10.7B)

- application of revised escalation indices (+\$3.3B)
- cost impacts of a slower near-term production ramp rate for full rate production manufacturing (+\$5.3B) (Air Force completion was extended two years to FY 2037 and Navy completion was extended two years to FY 2029)
- higher than forecasted contractor labor hours as a result of LRIP actuals (+\$4.0B)
- higher than expected material burdens placed on subcontractors by the prime contractor (+\$1.8B)
- revised construction estimates based on CAPE independent cost estimates (+\$4.2B)
- slower international procurement profile (+\$0.8B)
- decrease in initial spares due to revised estimates of required risk funding based on a CAPE-led independent program assessment (-\$5.6B)
- decrease in other support due to maturation of the technical baseline, definition of customer requirements, and further delineation of Service beddown plans (-\$3.6B)
- various miscellaneous increases (\$0.5B)

Engine: (+\$5.6B)

- application of revised escalation indices (+\$0.7B)
- cost impacts of a slower near-term production ramp rate for full rate production manufacturing (Air Force completion was extended two years to FY 2037 and Navy completion was extended two years to FY 2029) (+\$1.0B)
- increase in initial spares due to revised estimates of required risk funding based on a CAPE-led independent program assessment (+\$4.0B)
- various miscellaneous decreases (-\$0.1B)

- From SAR 2010 to SAR 2011 F-35 operating and support costs increased by \$107.9B (+10.7%) from \$1,113.2B to \$1,1508.9B. Details of the cost changes are as follows:

F-35 Program Operating and Support Cost: (+\$107.9B)

- D, CAPE ICE for Milestone B is the estimate of record for the SAR/Program as directed by the USD(AT&L)
- D, CAPE ICE for Milestone B was 6% more than the Program Office Estimate in Base Year 2012 dollars
- The span of program operations increased from SAR 2010 to SAR 2011, from 52 years to 55 years, driving increased fixed costs and inflationary impacts into the program. For example, fuel costs, which make up 14% of the TY\$ O&S estimate, are 190% higher (\$4.24 per gallon in 2012 vs. \$8.04 per gallon in 2065) in 2065 than they are today based on current OSD inflation indices. Fuel inflationary assumptions tend to fluctuate substantially from year to year due to the volatility of fuel prices.
- Estimate is heavily dependent on the flying hour program provided by the Services and will result in increases or decreases in total Operating and Support costs as the flying hour program fluctuates
- The estimate is also sensitive to fuel costs, future aircraft modifications, and aircraft quantity procured, and reliability and maintainability growth curves.